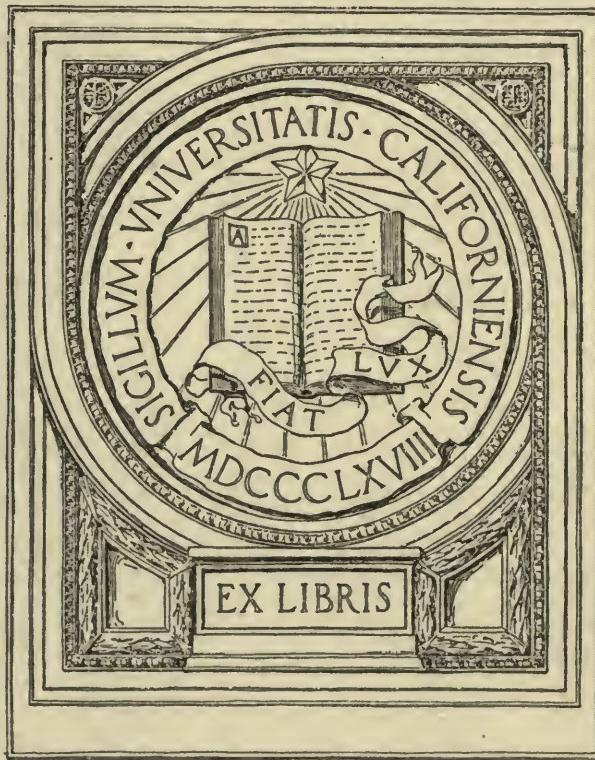


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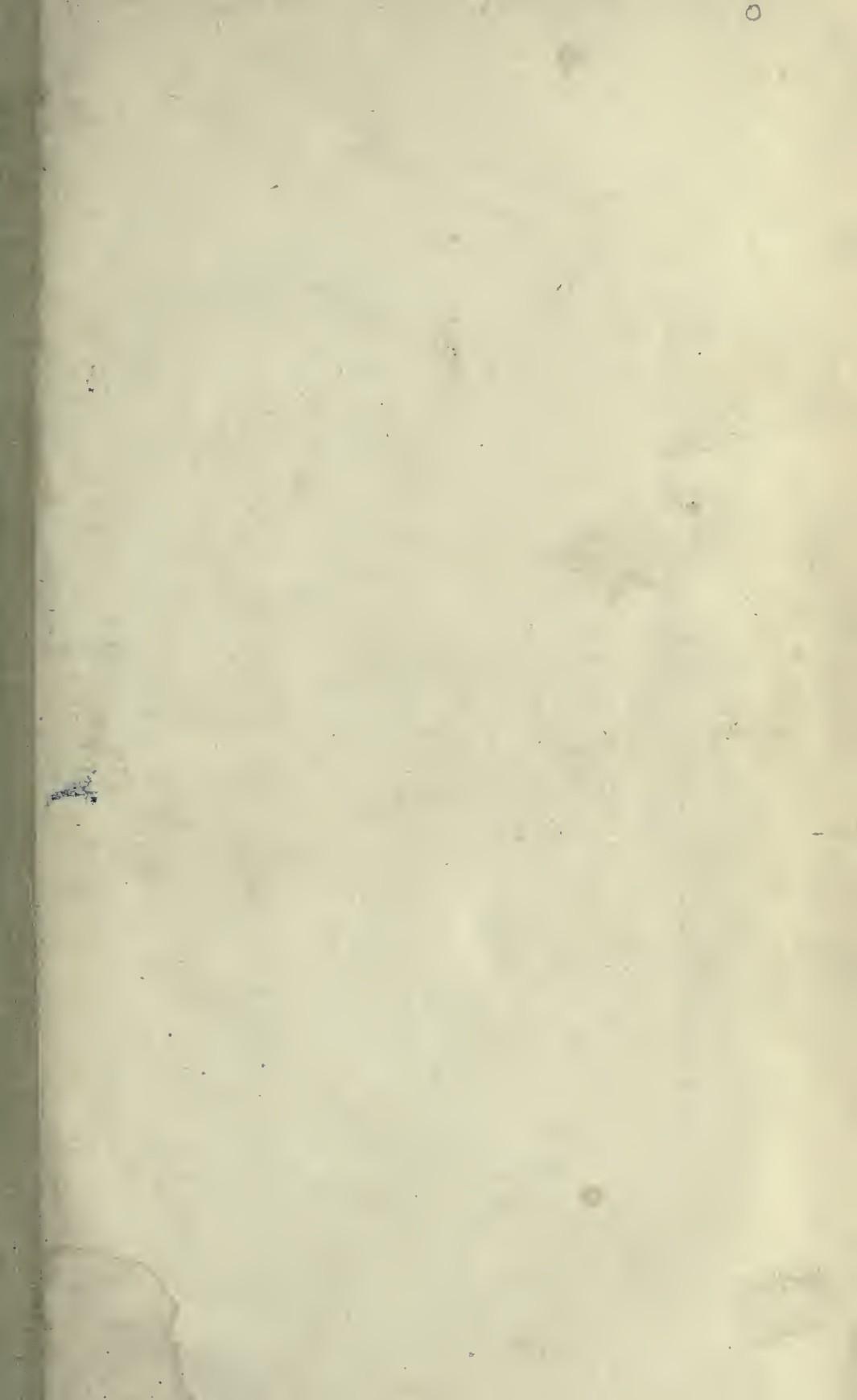


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BULLETIN NO. 9
BUREAU OF BUSINESS RESEARCH

OPERATING EXPENSES IN THE
WHOLESALE GROCERY BUSINESS



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OPERATING EXPENSES IN THE WHOLESALE GROCERY BUSINESS

INTRODUCTION

This bulletin presents the first results of the Bureau's study of operating expenses in the wholesale grocery business. The figures here summarized are based upon the uniform System of Operating Accounts for Wholesale Grocers which was prepared by the Bureau of Business Research in coöperation with the National Wholesale Grocers' Association and published in November, 1916. A part of the figures were taken from the books of wholesale grocers by agents of the Bureau, but over three-quarters have been secured by mail. Although there have doubtless been some errors in adjusting these figures to the uniform accounting system, they have been checked closely and the few that were widely divergent from the others do not affect the result. In the preparation of the summary figures of doubtful accuracy have not been used.

Profit and loss figures received from one hundred and eight wholesale grocers, chiefly for the year 1916, are included in the tabulation. Figures from over fifty other wholesale grocers have been omitted, because they could not be fully adjusted to the accounting system. The annual sales of the firms furnishing figures range from about \$180,000 to about \$8,000,000; of these, thirty-two have sales of from \$100,000 to \$499,000; thirty-four from \$500,000 to \$999,000; twenty-nine from \$1,000,000 to \$2,999,000; eleven from \$3,000,000 to \$4,999,000; and two of over \$5,000,000. These firms are located in thirty-one states and Canada; thirty-seven in the east; thirty-three in the south; twenty-seven in the middle west; three in the mountain states; six in the Pacific Coast states, and two in Canada. The number of firms reporting is not large enough to warrant the preparation of a separate summary for each geographical section of the country, nor to permit a detailed comparison of figures of wholesalers in large cities with the figures of wholesalers in smaller cities. In general, the expenses of wholesalers in the large cities are the higher, because of the larger territory that they cover with their salesmen for developing their trade in special lines of merchandise.

For each item of profit and expense and for stock-turn, the summary on the following page shows the lowest figure, the highest figure, and the common figure. The common figure in each case is the one around which the figures from all the wholesalers center. It is the predominant, typical, or most frequent figure — the one that is to be used by wholesale grocers as a standard with which to compare their own results. All percentages are percentages of Net Sales, as defined in the *System of Operating Accounts for Wholesale Grocers*.

OPERATING EXPENSES IN THE WHOLESALE GROCERY BUSINESS
SUMMARY

ITEM (For percentages, Net Sales = 100%)	Low	High	Common
Gross Profit.....	%	%	%
Gross Profit.....	7.7	17.2	12.0
Total Salesforce Expense.....	0.93	4.3	2.3
Advertising.....	0.0	1.19	0.07
Other Selling Expense.....	0.01	0.45	0.06
Total Selling Expense.....	1.2	4.53	2.5
Salaries and Wages of Receiving, Warehouse, and Shipping Force.....	0.43	2.0	1.15
Packing Cases and Wrappings.....	0.01	0.73	0.04
Outward Freight, Express, Parcel Postage, and Cartage.....	0.01	2.1	0.4
Total Receiving, Handling, and Shipping Expense.....	0.8	3.22	1.6
Salaries of Buying Force.....	0.05	1.05	0.35
Other Buying Expense.....	0.02	0.26	0.03
Total Buying Expense.....	0.05	1.05	0.4
Executive Salaries.....	0.16	1.21	0.5
Office Salaries.....	0.19	1.54	0.7
Postage and Office Supplies.....	0.05	0.48	0.23
Telephone and Telegraph.....	0.01	0.25	0.05
Credit and Collection Expense.....	0.01	0.57	0.06
Other Management Expense.....	0.02	0.42	0.1
Total General Management and Office Expense.....	1.15	3.15	1.65
Total Interest.....	0.4	3.03	1.5
Rent.....	0.17	1.05	0.4
Heat, Light, and Power.....	0.01	0.2	0.05
Taxes.....	0.02	0.75	0.2
Insurance (Except on buildings).....	0.03	0.58	0.11
Repairs of Equipment.....	0.01	0.49	0.05
Depreciation of Equipment.....	0.001	0.5	0.1
Total Fixed Charges and Upkeep Expense.....	1.31	4.62	2.5
Miscellaneous Expense.....	0.01	0.92	0.11
Losses from Bad Debts.....	0.002	1.66	0.3
Total Expense.....	6.7	13.74	9.5
Net Profit.....	Loss 1.13	7.01	2.4
Stock-turn.....	2.8	11.6	5.7

EXPLANATION

Gross Profit. Gross Profit in the wholesale grocery business, according to the statements that the Bureau has received, ranges from 7.7% to 17.2% of the Net Sales. Within this range the bulk of the figures are between 10.5% and 13.4%. The figure around which they center is 12%.

In connection with the merchandise statement, from which gross profit is determined, several questions have arisen. Numerous wholesalers state that they charge prepaid freight on the invoices of their customers, so that it is included in their gross sales, and that they do not keep a separate record of the amount of freight thus prepaid and afterward collected. This makes their gross profit appear larger than it really is, and also makes their figure for Net Sales too large. Prepaid freight collected from customers should be recorded separately and deducted from Gross Sales in order to show a proper figure for Net Sales. Since Net Sales is the figure on which all percentages are based, it is particularly important that it be derived in the same way in each wholesale grocery business.

Inward freight and cartage on goods bought by the wholesaler is frequently debited to purchases of merchandise when the bill for the goods is received, instead of being recorded separately. There is no serious objection to this practice as it does not affect the figure for gross profit.

Salesforce Expense is the first item in the expense statement. This includes salaries, wages, commissions, and travelling expense of sales-force. It is the largest single item in the operating expense of most wholesale grocery businesses. It ranges from 0.93% to 4.3% of Net Sales. Within this range the bulk of the figures are between 1.8% and 2.8%. The common figure is 2.3%; the concentration around this point is clearly marked.

Inasmuch as some salesmen will be called for military service and others will doubtless seek other employment during the war, many wholesale grocers will probably find it necessary to introduce new economies in selling their goods by covering their territory less frequently or in other ways.

Advertising is a small expense in the average wholesale grocery house. It ranges from practically nothing to 1.19% of Net Sales. Only three wholesalers have an advertising expense of over 0.5%. The bulk of the figures are between 0.05% and 0.1%, centering around 0.07%. This item includes catalogues and price lists as well as other forms of advertising.

Other Selling Expense ranges from 0.01% to 0.45% of Net Sales. The common figure is 0.06%. This item is so small that many wholesale

grocers have not kept it separate. In order to give an accurate figure for total selling expense and also to avoid confusion by making some other item appear too large, it is important that it should be kept separate.

Total Selling Expense ranges from 1.2% to 4.53% of Net Sales. The bulk of the figures are between 2.0% and 3.5%; centering around 2.5%.

Outward Freight, Express, Parcel Postage, and Cartage ranges from 0.01% to 2.1% of Net Sales. The common figure is 0.4%; wholesale grocery houses located in large cities generally show a higher figure.

Mistakes have been made by a few wholesalers in the entries for this item by not including rent of stable or garage and depreciation of delivery equipment in this account. There has also been difficulty, occasionally, over the division of cartage expense between this account and Inward Freight and Cartage. As is stated in the explanation of the accounting system, the cartage expenses should be divided proportionately between these two accounts, according to the time that the cartage equipment is employed in the transportation of incoming and outgoing merchandise. Inward cartage is a part of the cost of the goods; outward cartage is an operating expense.

Executive Salaries ranges from 0.16% to 1.21% of Net Sales. The bulk of the figures are between 0.4% and 0.7%, centering around 0.5%.

It has been difficult in numerous instances to obtain a figure for executive salaries from the firms that have furnished statements. Many wholesale grocers apparently have not been charging their businesses with salaries for the principals, and they have found it difficult to appreciate the need of furnishing these figures, in order to make their statements comparable with those of other wholesale grocers. Salaries of partners in the firm, representing fair compensation for their time, should be charged as an expense of their businesses, just as a corporation includes salaries of its officers. Frequently when salaries of partners were charged on the statements which have been received, they were low. In so far as possible the Bureau has obtained correct figures for this item.

Total Interest ranges from 0.4% to 3.03% of Net Sales. The common figure is 1.5%. This item is made up of interest on borrowed capital and interest on owned capital. For reasons given in the bulletin on the accounting system, interest on owned capital, as well as interest on borrowed capital, is included in the Expense Statement. Profits of wholesalers who do a considerable part of their business on borrowed capital cannot be compared with the figures of wholesalers operating entirely on their own capital unless this is done. The amount of interest to be charged is figured on the net investment — the sum of cash, notes receivable, accounts receivable, merchandise on hand, equipment (at depreciated value), and prepayments, less the sum of notes payable,

accounts payable, and any accrued items. The net investment, upon which the interest debited to Interest on Capital — Owned is charged, does not include the value of real estate, since that is taken care of by Rent. The rate at which interest is charged is the ordinary interest rate on reasonably secure, long-term investments in the locality in which the business is situated. This interest charge represents the amount that the capital would earn, without effort on the part of the owner, if invested elsewhere. Since some businesses operate entirely on their own capital whereas others borrow heavily, it is necessary that interest on the net investment should be added to interest paid out in order to get a figure that is valuable for comparisons. The amount that is debited to expense for interest on owned capital is credited back to net gain under Item 54, *Interest and Rentals Earned*.

Rent. The figures for this item range from 0.17% to 1.05% of Net Sales. The bulk of the figures are between 0.2% and 0.6%. The common figure is 0.4%.

Many wholesalers at first neglected to make an entry for this item if they owned their own building. Just as executive salaries and interest on owned capital are a proper charge to a wholesaler's business, so is rent on owned building. In determining a figure for rent perhaps the best guide is how much the wholesaler would have to pay for rent if someone else owned the building. This charge should of course be sufficient to cover taxes, insurance, repairs, and depreciation on owned realty which any landlord would have to consider in leasing the building.

Rent on owned real estate, like interest on owned capital, is credited back to net gain through Item 54, *Interest and Rentals Earned*. Only by charging rent and interest as a part of the expense can the figures of wholesalers who own their buildings be compared with the figures of wholesalers who rent their buildings.

Losses from Bad Debts range from 0.002% to 1.66% of Net Sales. The bulk of the figures are between 0.1% and 0.5% and the common figure is 0.3%.

Total Expense. The figures for this item range between 6.7% and 13.7% of Net Sales. The common figure is 9.5%.

Stock-turn is an especially significant figure for the wholesale grocery business, as for other businesses. This figure is determined by dividing the *Net Cost of Merchandise Sold*, Item 19 on the Profit and Loss Statement, by the average inventory. Since inventory is taken at cost, the cost of goods sold, not the net sales, must be used as the dividend.

Stock-turn ranges from 2.8 to 11.6 times a year. Only six firms have a stock-turn higher than 9.0 times a year, and the bulk of the figures are between 4.5 and 6.5 times annually. The common figure is 5.7 times. In the average wholesale grocery business, in other words, the stock was turned about once in two months in 1916.

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